



**Financial Report
of the
Operations of the System
Fiscal Year 2020**

November 24, 2020

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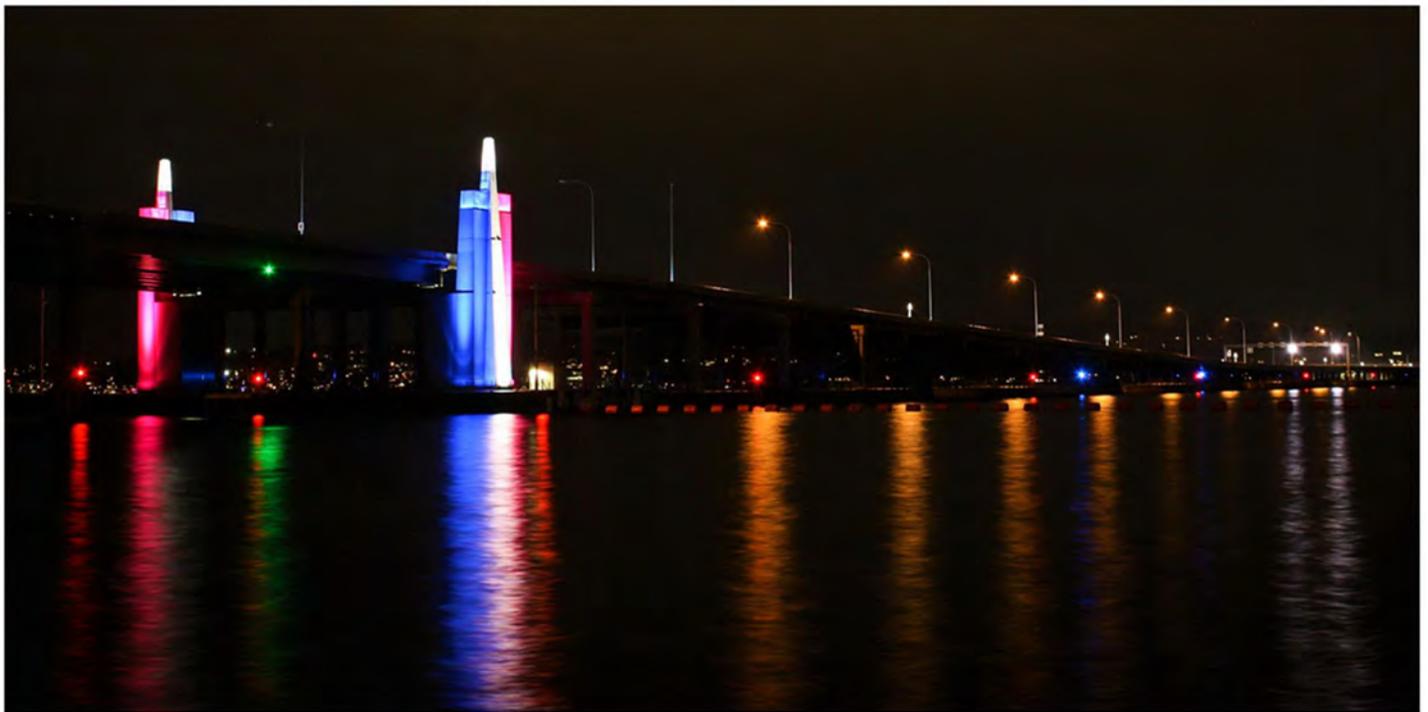
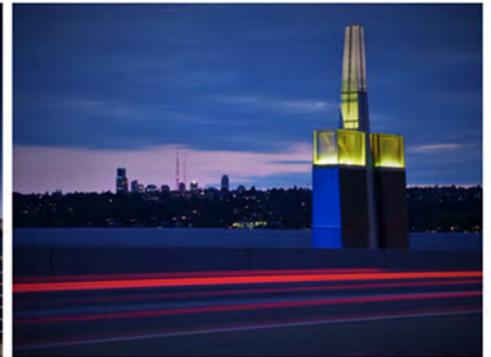
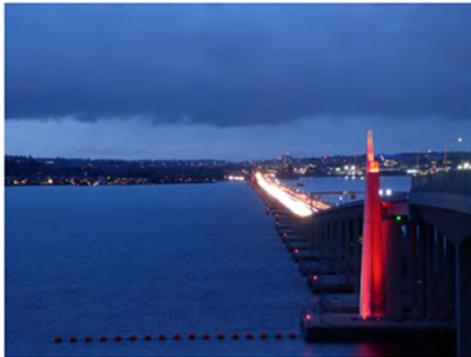
Exhibit I	Audited Financial Statements
Exhibit II	Projected Net Toll Revenues and Debt Service Coverage

Exhibit I
Audited Financial Statements



**Washington State
Department of Transportation**

**WASHINGTON STATE
SYSTEM OF ELIGIBLE TOLL FACILITIES
ANNUAL FINANCIAL REPORT
JUNE 30, 2020**





Presented By

Washington State Department of Transportation

Accounting and Financial Services Division





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**Washington State
Department of Transportation**

INTRODUCTORY SECTION

November 16, 2020

Roger Millar, Secretary
Washington State Department of Transportation
Olympia, WA 98504

Dear Secretary Millar:

The Accounting and Financial Services Division is pleased to present to you and the citizens of Washington State the Annual Financial Report for the Washington State System of Eligible Toll Facilities ("System"), for fiscal year ended June 30, 2020. Responsibility for the accuracy, completeness and reliability of the information contained in this report, including all disclosures, rests with the management of the Washington State Department of Transportation (WSDOT). To the best of our knowledge, the enclosed data is accurate in all material respects and is reported in a manner designed to provide a fair representation of the financial position of the System. This report has been prepared in accordance with standards established by the Government Accounting Standards Board (GASB). We believe the report contains all disclosures necessary for the reader to understand the System's financial position.

The overall net position of the System increased 16% to \$755 million during fiscal year 2020. Toll revenue decreased 22% to \$66.5 million over the prior year. Total expenditures increased by 1% primarily due to an increase in Goods and Services expenditures.

The financial statements and narratives included in this report represents that portion of the System financed by bonds issued under State Finance Committee Master Resolution Numbers 1117 and 1125, as represented in the State Route 520 Corridor Account and the Toll Facility Bond Retirement Account. Pursuant to RCW 47.56.060, this report is intended to provide complete and reliable information that can be used to make management decisions and demonstrate the financial condition of the System.

WSDOT's management is responsible for establishing and maintaining an effective internal control structure designed to ensure the assets of the System are protected from loss, theft or misuse. WSDOT's internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the expected benefits and (2) the valuation of costs and benefits requires estimates and judgments by management.

This Annual Financial Report is divided into an Introductory Section and Financial Section to facilitate a thorough understanding of the financial position of the System. Management's Discussion and Analysis (MD&A) can be found in the Financial Section and provides a narrative overview and analysis of the financial statements.

The preparation of the System's Annual Financial Report was accomplished through a partnership between the employees of the Toll Division and the Accounting and Financial Services Division. We appreciate the assistance of all employees involved.

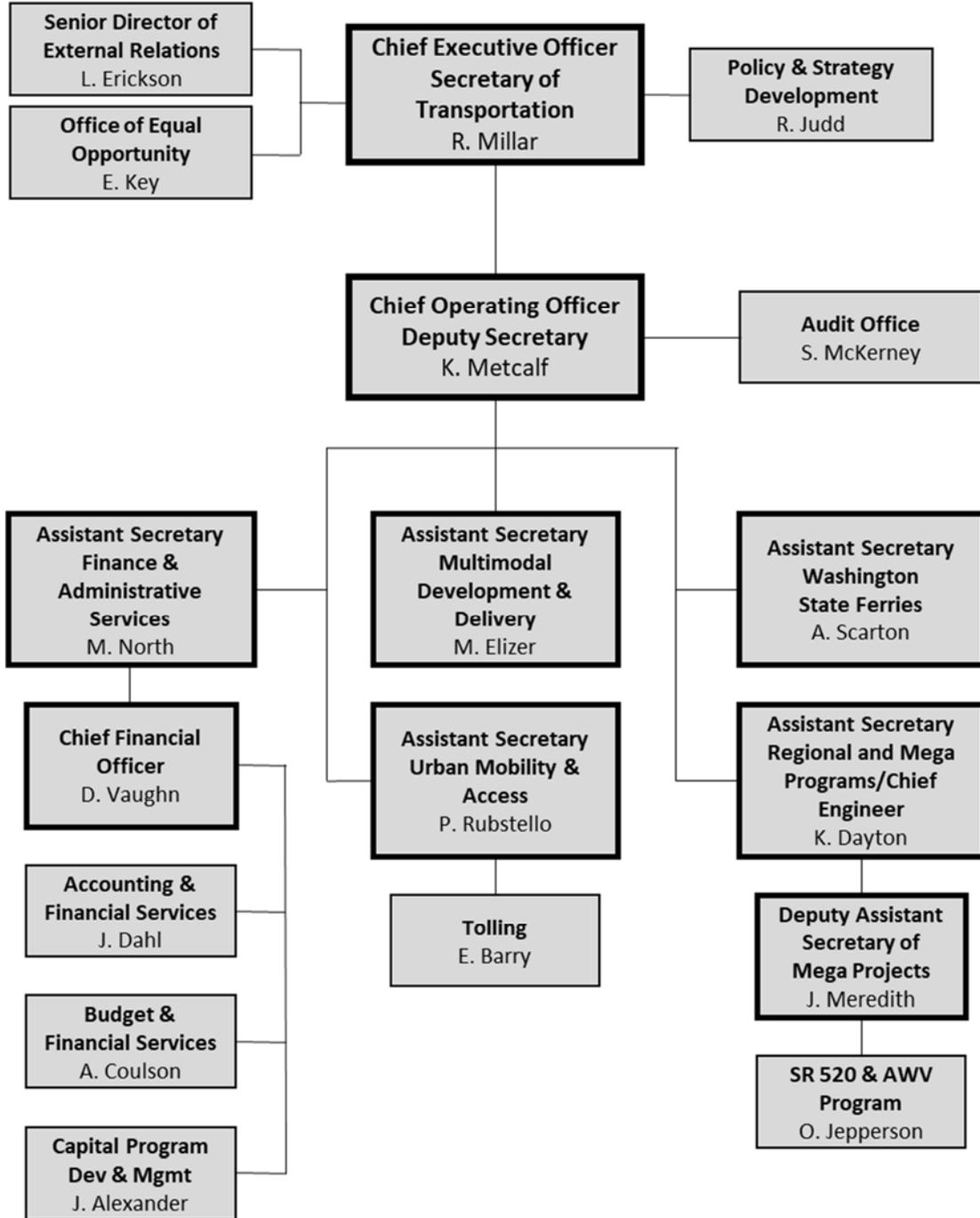
Respectfully submitted,

A handwritten signature in black ink, reading "Jennifer Dahl". The signature is written in a cursive, flowing style.

Jennifer Dahl, Director
Accounting and Financial Services Division

Washington State Department of Transportation's Organization as of October 20, 2020

**Citizens of the State of Washington
Governor Jay Inslee**



Profile of Washington State System of Eligible Toll Facilities

SR 520 Bridge

The State Route (SR) 520 Floating Bridge replacement construction began in 2011, opening in April 2016 with an estimated expected life of 75 years and capable of carrying more traffic and surviving stronger storms. At the grand opening ceremony, Michael Empric, a representative of Guinness World Records, presented WSDOT's Secretary Roger Millar with a certificate designating the replacement floating bridge – at 7,708 feet, end to end – as the world's longest.



The bridge is the centerpiece of the SR 520 Bridge Replacement and HOV Program, a project addressing safety vulnerabilities and capacity restrictions along the 12.8-mile SR 520 Corridor which stretches from I-5 in Seattle to SR 202 in Redmond.

In April 2017, one year after opening to traffic, the SR 520 Bridge received the 2017 Grand Conceptor Award from the American Council of Engineering Companies (ACEC). As one of the country's highest engineering awards, the Grand Conceptor Award honors the nation's best overall engineering achievement. The floating bridge was one of 162 projects throughout the world vying for ACEC's top engineering award.

Tolling Back Office System and Customer Service Center

WSDOT contracted with Electronic Transaction Consultants Corporation (ETCC) in December 2009 for the operations of the toll back-office system and customer service center. The current system is considered the first generation in customer toll transaction processing. WSDOT completed the request for proposal (RFP) process in 2017 for a new vendor to provide a more advanced system to take advantage of current technologies and be highly adaptable and flexible to grow with the addition of new facilities.

WSDOT awarded a contract to design and implement a new system to ETAN Tolling Technology in Fiscal Year 2017, and a contract to operate the *Good To Go!* customer service program to AECOM during Fiscal Year 2018. WSDOT had initially scheduled to transition to the new system and customer service center during Fiscal Year 2019, however implementation is currently planned for Fiscal Year 2021.

This second generation of toll transaction processing will allow interoperability with Washington State Ferries and other toll operators.

Financing the Replacement SR 520 Bridge

The State issued \$518.7 million in triple pledge bonds in October 2011, \$500.4 million in GARVEE bonds in June 2012, a \$300.0 million TIFIA bond in October 2012, \$285.9 million in GARVEE bonds in September 2013, \$90.3 million in triple pledge bonds in September 2016, and expects to fund the remaining costs with additional bond proceeds, federal funds, toll revenue and excise taxes on motor vehicle and special fuels.

Funded improvements and construction include:

- A new floating bridge, plus the east approach and a portion of the west approach that provides six lanes from Medina to Montlake.
- Widening the corridor to six lanes (two general-purpose and one HOV lane in each direction) between the west landing of the new floating bridge and I-405 in the east.
- Adding a pedestrian/bike lane in the widened corridor.
- Making a series of other investments for safety, reliability, transit and HOV operations.

The total investment for the SR 520 Bridge Replacement and HOV Program is \$4.51 billion. Of this funding, \$1.64 billion was part of the 2015 Connecting Washington package, a balanced and multimodal transportation investment package that fixes hundreds of bridges, funds thousands of miles of roadway, and authorizes Sound Transit to expand light rail north to Everett, south to Tacoma, east to Redmond, and within Seattle between Ballard and West Seattle. The Connecting Washington package funds the remaining SR 520 planned improvements, known as the “Rest of the West.”

Financing the Replacement SR 520 Bridge (Continued)

Funding Received to Date	Amount (in billions)
State Funding (Primarily Gas Tax)	\$ 0.54
State Funding (Connecting Washington)	1.64
SR 520 Account (Tolling/ Future Federal Funding)	1.67
Federal TIFIA Loan	0.30
Other Federal Funding	0.20
Deferred Sales Tax	0.16
Total	\$4.51

Benefits from this funding include:

- A seismically stronger Portage Bay Bridge to replace the existing bridge, which is vulnerable to earthquakes.
- Community-connecting highway lids at Montlake Boulevard and 10th Avenue East / Delmar Drive East.
- A new, seismically stronger West Approach Bridge South to carry three lanes of eastbound traffic past Montlake Boulevard to the new floating bridge.
- A new, second bascule bridge across the Montlake Cut to provide additional capacity and safer north-south travel on Montlake Boulevard.
- A landscaped, 30-foot-wide bicycle and pedestrian shared-use path over I-5.
- Related mitigation and trail-improvement projects in Seattle parks, natural areas and communities.

For more information about the SR 520 Bridge Replacement and HOV Program, including the program's purpose, costs and benefits, and a series of maps and photos visit the SR 520 Bridge Replacement and HOV Program website at: <http://www.wsdot.wa.gov/Projects/SR520Bridge/>.

Sustainability and Environmental Stewardship

WSDOT is committed to environmental stewardship and promoting sustainability. The new SR 520 floating bridge can be retrofitted for future light rail and has been designed to minimize concrete requirements by reducing the number of in-water columns and the amount of concrete needed to build them. New storm water management systems along the corridor collect and filter highway runoff which improves water quality in local streams and Lake Washington.

The SR 520 Bridge Replacement and HOV Program also includes a wide range of projects to protect and enhance parks, fish and wildlife habitat as well as cultural and historical areas across the region. One of these projects includes improvements to the Washington Park Arboretum which involves restoration work to Arboretum Creek and the Waterfront Trail, a new multiuse trail, a new north entry into the Arboretum and an enhanced SR 520 pedestrian undercrossing on Foster Island.

Washington State System of Eligible Toll Facilities Organization

Under the Toll Facilities Act of the state of Washington (Chapter 122, Laws of 2008; Chapter 472, Laws of 2009; Chapter 498, Laws of 2009, Section 15; Chapter 248, Laws of 2010; and Chapter 377, Laws of 2011), the Legislature may specifically identify and designate portions of the state highway system as an eligible toll facility, including, but not limited to, transportation corridors, bridges, crossings, interchanges, on-ramps, off-ramps, approaches, bi-state facilities, and interconnections between highways (“Eligible Toll Facilities”). In the Toll Facilities Act, the Legislature designated the SR 520 Corridor as an eligible toll facility and has authorized the imposition of tolls for travel on the floating bridge portion only of the SR 520 Corridor.

The Legislature designated the Washington State Transportation Commission (WSTC) as the tolling authority for the state (the “Tolling Authority”). As the Tolling Authority, they have legal power to set, review and adjust tolls on eligible toll facilities upon which the Legislature has authorized the imposition of tolls. The WSTC is a seven-member body of citizens appointed by the Governor for six-year terms. The Secretary of Transportation and a representative from the Governor’s office serve as ex officio members.

The Toll Facilities Act directs that, in setting and adjusting toll rates, the Tolling Authority must ensure that tolls will generate revenue sufficient to: (1) meet operating costs of the Eligible Toll Facilities, including necessary maintenance, preservation, renewal, replacement, administration, and toll enforcement; (2) meet obligations for the timely payment of debt service on bonds issued for Eligible Toll Facilities, and any other associated financing costs including, but not limited to, required reserves, minimum debt service coverage and other appropriate contingency funding, insurance, and compliance with all other financial and other covenants made by the state in the bond proceedings; (3) meet obligations to reimburse the Motor Vehicle Fund for Motor Vehicle Fuel Taxes applied to the payment of bonds issued for Eligible Toll Facilities; and (4) meet any other obligations of the Tolling Authority to provide its proportionate share of funding contributions for any projects or operations of the Eligible Toll Facilities.

WSDOT is committed to financial transparency and accountability in fulfilling its tolling fiduciary responsibilities. Organizations listed below contribute to the operations and oversight of the System.

Organization	Roles & Responsibilities
Washington State Legislature Olympia, WA 98504	Provides legal framework for tolling; determines eligible tolling corridors and facilities; authorizes tolling budget and finance plans.
Washington State Transportation Commission Olympia, WA 98502	Sets tolls for state highways and bridges; reviews and oversees toll collection processes and costs, operations policies, and traffic and toll revenue.
Office of the State Treasurer Olympia, WA 98504	Provides cash management and administration of debt service.
State Auditor's Office Olympia WA 98504	Conducts the Comprehensive Annual Financial Report (CAFR) Audit, Performance Audits and the Statewide Single Audit (SWSA) for the State of Washington.
WSDOT Toll Division Seattle, WA 98104	Develops, delivers and oversees the statewide toll collection system.
WSDOT Accounting & Financial Services Olympia, WA 98504	Preparing quarterly financial statements and providing financial services to the statewide toll collection system.
WSDOT Budget & Financial Analysis Olympia, WA 98504	Provides financial planning and debt management services.
WSDOT Audit Office Olympia, WA 98504	Provides audit and consulting services to the statewide toll collection system.
Kapsch Trafficcom Trans Na Inc. McLean, VA 22102	Operates the Roadway Toll System, collecting electronic and photo toll transactions for processing.
Electronic Transaction Consultants Corporation (ETCC) Richardson, TX 75081	Operates the statewide <i>Good To Go!</i> Customer Service Center (CSC) that supports customer service account management, payment processing, and customer service.
CliftonLarsonAllen LLP (CLA) Bellevue, WA 98004	Conducts independent audit of the System's annual financial statements.
Jacobs Engineering Group Inc. Dallas, TX 75201	Provides tolling industry expertise, analysis and consulting services across all transaction processing cycles.
Stantec Inc. Edmonton, AB T5J 0K4	Provides independent analysis of traffic, revenues and leakage. Produces and supports budget and planning projections and forecasts.

Washington State System of Eligible Toll Facilities Operations

The SR 520 Bridge is an electronic tolling facility that uses transponders and cameras to capture transactions. The toll authorized is charged only for travel on the floating bridge portion of the SR 520 Corridor and is used to meet obligations for the repayment of debt and operating cost of the facility. WSDOT began tolling the SR 520 Bridge in December 2011, and will continue to collect tolls until bond obligations are satisfied.

Tolls are charged in both directions of the bridge and vary in price by the time of day and for weekend and holidays. Motorcycles pay the same toll as larger two axle vehicles and vehicles with more than two axles pay a higher prorated toll. The estimated average weekday toll paid in fiscal year 2020 was \$3.57 and the average weekend toll rate was \$2.53. A brief description of the payment options are listed below:



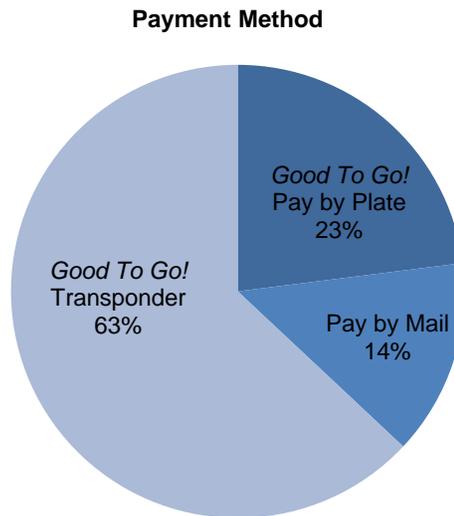
Good To Go! Pass – This account requires a *Good To Go!* pass and registered license plate number. Accounts can be set up to auto-replenish when the account balance drops below a predefined level. These accounts are charged the lowest toll rate.

Pay By Plate – This account does not require a pass, but does require a license plate number registered with a *Good to Go!* account. Accounts can be set up to be replenished automatically. Customers are charged the *Good to Go!* toll rate plus a \$0.25 fee per toll transaction.

Pay By Mail – This account is meant for infrequent users that do not have a *Good to Go!* account. Toll bills are mailed to the registered vehicle owner's address on file with the Department of Licensing. Toll bills are generally mailed within 14 days of crossing the SR 520 Bridge. Customers are charged the pay by mail toll rate, which is \$2.00 more per transaction than the *Good to Go!* pass.

Short Term – This account is only valid for 14 days and then automatically closes. Drivers have up to 72 hours after traveling a tolled facility to set up a short term account. Customers are charged the pay by mail rate minus a \$0.50 discount per toll transaction. Tolls and fees are charged directly to the customer's debit or credit card.

Monthly Trip Reports provide a breakdown of toll transactions by payment method. For fiscal year 2020, the proportion of *Good to Go!* (i.e. account based) transactions was 86%, with 63% of the transactions using a pass and 23% using the pay by plate payment option. For more information about payment share, readers should review the Investment Grade Traffic and Revenue Study Updates found at <http://www.wsdot.wa.gov/Tolling/520/Finance.htm>.



Toll rates are established by WSTC. SR 520 Bridge tolls vary by time of day and for weekends and holidays. WSTC works with WSDOT and the public to establish toll rates. WSTC reviews traffic and revenue each year to determine whether new toll rates are needed to cover operational costs and debt payments. This review process starts in the fall and, if new rates are adopted, they are in effect the following July.

Service Organization Controls Report

In Fiscal Year 2018, the tolling subsidiary accounting system managed by ETCC, a contracted service organization, received an unmodified opinion on its Statement on Standards for Attestation Engagements (SSAE) 16 Service Organization Control (SOC) Type 1 Report.

Due to the scheduled migration of the ETTC Rite Software, there is no contractual requirement for the ETCC RITE software to obtain an annual SOC 1 Report. ETCC did obtain a Payment Card Industry (PCI) Data Security Standard Attestation of Compliance for Onsite Assessments – Service Providers dated April 1, 2020.

Contacting Washington State Department of Transportation

This financial report is designed to provide a general overview of the System's finances for bond holders, customers and other interested parties. Questions concerning any of the information provided in this report should be addressed to Jennifer Dahl, Director of Accounting and Financial Services, Washington State Department of Transportation, PO Box 47420, Olympia, Washington, 98504-7420.

Financial Section



INDEPENDENT AUDITORS' REPORT

Washington State System of Eligible Toll Facilities
Olympia, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Washington State System of Eligible Toll Facilities, a project of the Department of Transportation of the state of Washington, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Washington State System of Eligible Toll Facilities as of June 30, 2020, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

As discussed in Note 1, the financial statements present only the Washington State System of Eligible Toll Facilities and do not purport to, and do not, present fairly the financial position of the Department of Transportation of the state of Washington or the state of Washington as of June 30, 2020 and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 15-21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Washington State System of Eligible Toll Facilities’ basic financial statements. The transmittal letter is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The transmittal letter has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



CliftonLarsonAllen LLP

Bellevue, Washington
November 16, 2020

Washington State System of Eligible Toll Facilities Management's Discussion and Analysis June 30, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis provides an overview of financial activities of the System for the fiscal years ended June 30, 2020 and June 30, 2019. Please read the financial statements in conjunction with the notes to the financial statements, which begin on page 24.

The financial statements are intended to present information of only that portion of the government-type activities of the state of Washington attributable to the transactions of the System. For financial reporting purposes, the System is a part of the primary government of the state of Washington and is included in the state's Comprehensive Annual Financial Report (CAFR).

Financial Highlights

The data presented here represents comparisons of financial activity related to tolling on the System for fiscal years ended June 30, 2020 and June 30, 2019.

- *Revenues*

Government-wide revenues were \$172,446,106 for fiscal year 2020 and \$190,642,994 for fiscal year 2019, representing a decrease of \$18,196,888.

Total governmental fund revenues were \$175,020,694 for fiscal year 2020 and \$190,618,633 for fiscal year 2019. This includes toll revenues of \$66,570,380 and \$85,678,692 for fiscal years 2020 and 2019, respectively.

Total Toll Facility Bond Retirement Account revenues were \$386,354 for fiscal year 2020 and \$358,892 for fiscal year 2019. Source of revenue for debt service consists of interest income.

- *Expenditures*

Government-wide expenditures were \$68,597,610 for fiscal year 2020 and \$67,773,291 for fiscal year 2019, representing an increase of \$824,319.

Total governmental fund expenditures were \$179,498,293 for fiscal year 2020 and \$180,805,151 for fiscal year 2019, representing a decrease of \$1,306,858.

- *Net Position*

The System reported a total net position of \$754,969,744 in fiscal year 2020 and \$649,687,248 in fiscal year 2019, representing an increase of \$105,282,496.

The System's governmental combined funds reported a combined ending fund balance of \$98,991,120 for fiscal year 2020 and \$101,406,641 for fiscal year 2019.

Washington State System of Eligible Toll Facilities Management's Discussion and Analysis June 30, 2020

Financial Highlights (Continued)

- *Capital Assets*

The value of infrastructure of \$2,113,899,969 was unchanged for fiscal year 2020.

The value of land is \$45,275,093 for fiscal year 2020. The net value of equipment was \$1,389 for fiscal year 2020.

The depreciated value of System assets for fiscal year 2020 was \$54,140,590. This includes a new back office system still in the development phase for \$8,864,108.

Overview of the Financial Statements

This discussion and analysis serves as an introduction to the System's financial statements, which include the basic financial statements and the notes to the financial statements. The System is a governmental program, consisting of two accounts: the SR 520 Corridor Account and the Toll Facility Bond Retirement Account. Both accounts are categorized as Special Revenue Accounts and use the modified accrual basis of accounting.

Basic Financial Statements

Financial statements for the System are presented in a combined format that represents individual accounts, SR 520 Corridor Account and the Toll Facility Bond Retirement Account, and the System as a whole (government-wide).

- *Balance Sheet / Statement of Net Position*

The first three columns of the combining statement present the Balance Sheet, while the last column presents the Statement of Net Position. The fourth column provides information which reconciles the noted differences. This combined statement can be found on page 22 of this report.

- *Statement of Revenues, Expenditures and Changes in Fund Balances / Statement of Activities*

The first three columns of the combining statement present the Revenues, Expenditures, and Changes in Fund Balance, while the last column presents the Statement of Activities. The fourth column provides information which reconciles the noted differences. This combined statement can be found on page 23 of this report.

Government Fund Financial Statements

The Statement of Net Position and Statement of Activities provides readers with a broad overview of the System's finances, using full accrual accounting in a manner similar to a private sector business. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the System is improving or deteriorating.

Washington State System of Eligible Toll Facilities Management's Discussion and Analysis June 30, 2020

Basic Financial Statements (Continued)

Government-Wide Financial Statements

The Statement of Net Position and Statement of Activities provides readers with a broad overview of the System's finances, using full accrual accounting in a manner similar to a private sector business. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the System is improving or deteriorating.

Notes to the Financial Statements

The notes to the financial statements, presented on pages 24-43 of this report, are an integral part of the financial statements. They provide additional information that is essential to a full understanding of the data provided in the individual special revenue accounts and government-wide financial statements.

Financial Analysis

The data presented in the tables below is a comparison of fiscal year ended June 30, 2020 and June 30, 2019.

CONDENSED STATEMENT OF NET POSITION			
	2020	2019	%
			Change
Assets			
Current and Other Assets	\$ 104,174,313	111,816,420	-6.8%
Capital Assets, Net	2,168,040,559	2,165,679,653	0.1%
Total Assets	<u>2,272,214,872</u>	<u>2,277,496,073</u>	-0.2%
Liabilities			
Current and Other Liabilities	112,757,035	111,463,720	1.2%
Noncurrent Liabilities	1,404,488,093	1,516,345,105	-7.4%
Total Liabilities	<u>1,517,245,128</u>	<u>1,627,808,825</u>	-6.8%
Net Investment in Capital Assets	664,919,343	555,340,895	19.7%
Restricted Net Position	90,050,401	94,346,353	-4.6%
Net Position, end of the year	<u>\$ 754,969,744</u>	<u>\$ 649,687,248</u>	16.2%

During fiscal year 2020, net investment in capital assets increased by \$109,578,448 compared to 2019. This is primarily due to repayment of debt and additional construction activity.

Washington State System of Eligible Toll Facilities Management's Discussion and Analysis June 30, 2020

Financial Analysis (Continued)

CONDENSED STATEMENT OF ACTIVITIES			
	2020	2019	% Change
Revenue			
Tolling Revenue	\$ 66,570,380	\$ 85,678,692	-22.30%
Other Revenue	105,875,726	104,964,302	0.87%
Total Revenue	<u>172,446,106</u>	<u>190,642,994</u>	-9.55%
Expenses			
Personnel Service Contracts	1,714,560	2,010,036	-14.70%
Goods and Services	17,637,730	14,312,537	23.23%
Other Expenditures	49,245,320	51,450,718	-4.29%
Total Expenses	<u>68,597,610</u>	<u>67,773,291</u>	1.22%
Other Financing Sources/Uses	1,434,000	1,000,000	43.4%
Loss on Property Sale	-	(288,284)	-100.00%
Change in Net Position	<u>105,282,496</u>	<u>123,581,419</u>	-14.81%
Net Position, Beginning of the year	649,687,248	526,105,829	23.49%
Net Position, end of the year	<u>\$ 754,969,744</u>	<u>\$ 649,687,248</u>	16.21%

The System's fund balance consists of Restricted and Unassigned. Unassigned fund balance includes interest income of \$386,354 for fiscal year 2020, and the impact of Master Bond Resolution 1117 Section 6.12 f(iii) and h(iii) requirements.

The fund balances are restricted to any proper purpose of the System's operations, in accordance with State Legislation and Master Resolution 1117 (referred to as "sub-accounts" within the Bond Covenant). The restricted fund balances are established as a result of the issuance of bonds for the System. Master Bond Resolution 1117 Sections 6.12 f(ii) and h(ii) require the department to deposit monthly, one sixth of the interest payment of the bonds coming due in the next succeeding sixth months for both the third tier and fourth tier debt service. Master Bond Resolution 1117 Sections f(iii) and h(iii) requires the department deposit monthly, one twelfth of the principal payment of the bonds coming due in the next twelve months for both the third tier and fourth tier debt service. The department began paying debt service on third tier debt in June 2012 and transferring funds into the third tier debt service subaccount. Based on the debt service schedule from the 2012 TIFIA Loan Agreement, as amended, the department began paying debt service in December 2017 and transferring funds to the fourth tier debt service account. These monthly deposit requirements can cause transfer amounts to exceed debt service payments.

Washington State System of Eligible Toll Facilities Management's Discussion and Analysis June 30, 2020

Financial Analysis (Continued)

Restrictions for fiscal year ended June 30, 2020 and 2019 are as follows:

RESTRICTED NET POSITION		
	2020	2019
Restricted for Operating/Maintenance Reserve	\$ 11,855,555	\$ 11,855,555
Restricted for Repair/Replacement Reserve	21,684,303	23,810,928
Restricted Revenue Stabilization	17,804,958	28,804,958
Restricted for Deferred Sales Tax	4,500,000	4,500,000
Restricted for Transportation	24,738,315	16,329,808
Restricted for Third Tier Debt Service	7,482,061	7,179,406
Restricted for Fourth Tier Debt Service	1,985,209	1,865,698
	\$ 90,050,401	\$ 94,346,353

Capital Assets

The System's capital assets are comprised of land and equipment. The total infrastructure balance of \$2,113,899,969 is related to activities of the SR 520 Corridor Program.

ETCC's electronic tolling system includes an IT software intangible asset that is owned by WSDOT. The capitalized portion of ETCC's electronic tolling system that was purchased and developed by the SR 520 Corridor Account is included, net of amortization, in the asset balance on the Statement of Net Position. As of fiscal year 2020, the system has been fully amortized.

ETAN is in the development phase of their electronic tolling system which also includes an IT software intangible asset that is owned by WSDOT. There is no amortization while the system is in the development stage. The capitalized portion of ETAN's electronic tolling system that was purchased by the SR 520 Corridor Account is included in the asset balance on the Statement of Net Position.

Long-Term Debt – Bond Information

Under Chapter 122, Laws of 2008; Chapter 472, Laws of 2009; Chapter 498, Laws of 2009, Section 15; Chapter 248, Laws of 2010; and Chapter 377, Laws of 2011 (codified in RCW 47.56.805-.876) (the "Toll Facilities Act"), the Legislature has designated the SR 520 Corridor as an "Eligible Toll Facility" and has authorized the imposition of tolls on the floating bridge portion of the SR 520 Corridor. The Toll Facilities Act provides that "toll revenue" includes all toll receipts, interest income derived from the investment of toll receipts, and any gifts, grants, and other funds received for the benefit of transportation facilities in the state, including eligible toll facilities. The Bond Act provides, for the purposes of any pledge of toll revenue to the payment of particular bonds issued under the Bond Act that "toll revenue" means and includes only such toll revenue or portion thereof that is pledged to the payment of those bonds in the resolution authorizing the issuance of those bonds.

Washington State System of Eligible Toll Facilities Management's Discussion and Analysis June 30, 2020

Long-Term Debt – Bond Information (Continued)

The Bond Act authorized the State Finance Committee to issue, at the request of WSDOT, \$1.95 billion of general obligation bonds of the state, to which the state's full faith and credit are pledged and are first payable from toll revenue and motor vehicle fuel taxes ("Triple Pledge Bonds"), to provide funds necessary for the location, design, right-of-way, and construction of the SR 520 Corridor Program. The Bond Act also authorized the Committee to issue the authorized bonds as toll revenue bonds, which are payable solely from and secured solely by toll revenue rather than as general obligation bonds to which the state's full faith and credit are pledged.

In October 2011, the state of Washington issued \$518.7 million Motor Vehicle Fuel Tax General Obligation Bonds (SR 520 Corridor Program - Toll Revenue). These bonds, referred to as Series 2012C Bonds, are general obligations of the state of Washington to which the state has pledged its full faith, credit and taxing power. The bonds are "Triple Pledge Bonds" first payable from Toll Revenue and Motor Vehicle Fuel Taxes. This series was issued to provide funds to pay and reimburse state expenditures for a portion of the SR 520 Floating Bridge and Eastside plus West Approach Bridge Project, to fund capitalized interest and to pay bond issuance costs. The Series 2012C Bonds received a credit rating of Aa1 from Moody's in October 2011 and AA+ from Fitch, and AA+ from Standard and Poor's in September 2011.

In June 2012, the state of Washington issued \$500.4 million Federal Highway Grant Anticipation Revenue (GARVEE) Bonds. These bonds, referred to as Series 2012F Bonds, financed a portion of the construction costs of the SR 520 Floating Bridge and Eastside plus West Approach Bridge Project, and to pay bond issuance costs. They were issued as limited obligations of the state payable from and secured solely by the Federal-Aid Highway funds received by the state. The Series 2012F Bonds received a credit rating of Aa2 from Moody's and AA from Standard and Poor's in April 2012.

In October 2012, the state of Washington issued a Transportation Infrastructure and Innovation Bond, which represented a draw-down loan from the United States Department of Transportation's Transportation Infrastructure Finance and Innovation Act (TIFIA) program in the amount of \$300 million to be reimbursed from toll revenue. All \$300 million has been drawn on the TIFIA Bond. The Bonds were issued as Fourth Tier Bonds under the Toll Revenue Master Bond Resolution No. 1117 and are payable solely from toll receipts.

In September 2013, the state of Washington issued \$285.9 million in Federal Highway Grant Anticipation Revenue (GARVEE) Bonds, referred to as Series 2014C Bonds. These bonds were issued to finance a portion of the construction costs of the SR 520 Floating Bridge and Eastside plus West Approach Bridge Project, and to pay bond issuance costs. The Series 2014C Bonds are limited obligations of the state payable from and secured solely by the Federal-Aid Highway Funds received by the state. The Series 2014C Bonds received a credit rating of Aa3 from Moody's and AA from Standard and Poor's in September 2013.

Washington State System of Eligible Toll Facilities
Management's Discussion and Analysis
June 30, 2020

Long-Term Debt – Bond Information (Continued)

In September 2016, the state of Washington issued \$90.3 million in Motor Vehicle Fuel Tax General Obligation Bonds (SR 520 Corridor Program – Toll Revenue), Series 2017C, for the purpose of providing funds for a portion of the SR 520 Floating Bridge and Eastside plus West Approach Bridge North. The Series 2017C Bonds were the second series of Third Tier Bonds issued under the Toll Revenue Master Bond Resolution No. 1117 and are first payable from Toll Revenue and Motor Vehicle Fuel Taxes. Interest on the Series 2017C Bonds is payable semiannually on each June 1 and December 1, beginning December 1, 2016. The principal of the Series 2017C Bonds is payable each June 1, starting in June 2017, and continuing to June 2041.

Washington State System of Eligible Toll Facilities

Balance Sheet / Statement of Net Position

Year Ended June 30, 2020

	Toll Facility			Adjustments (Note 2)	Statement of Net Position
	SR 520 Corridor Account	Bond Retirement Account	Total		
Assets					
Cash and Cash Equivalents	\$ 91,185,774	\$ 9,467,270	\$ 100,653,044	\$ -	\$ 100,653,044
Accounts Receivable (Net)	1,174,801	-	1,174,801	-	1,174,801
Due from Other Funds/Agencies	676,960	5,572	682,532	-	682,532
Due from Toll Vendor	1,663,936	-	1,663,936	-	1,663,936
Capital assets, not being depreciated (Note 6)	-	-	-	2,159,175,062	2,159,175,062
Capital assets, being depreciated (Note 6)	-	-	-	1,389	1,389
Intangible assets, not being amortized (Note 6)	-	-	-	8,864,108	8,864,108
TOTAL ASSETS	94,701,471	9,472,842	104,174,313	2,168,040,559	2,272,214,872
Liabilities					
Accounts Payable	2,166,166	-	2,166,166	-	2,166,166
Due to Other Funds/Agencies	1,235,198	-	1,235,198	-	1,235,198
Due to Other Governments	4,892	182,131	187,023	-	187,023
Unearned Revenue	8,264	-	8,264	-	8,264
Debt Service Interest Payable	-	-	-	10,499,962	10,499,962
Current Portion of Long Term Debt	-	-	-	98,660,422	98,660,422
Long-term Liabilities (Note 7)					
Compensated Absences Payable	-	-	-	27,298	27,298
Sales Tax Payable	-	-	-	159,439,317	159,439,317
Premiums on Bonds Payable	-	-	-	58,302,131	58,302,131
Bond Principal Due After One Year	-	-	-	899,615,000	899,615,000
TIFIA Loan Principal Due After One Year	-	-	-	287,104,347	287,104,347
TOTAL LIABILITIES	3,414,520	182,131	3,596,651	1,513,648,477	1,517,245,128
Deferred Inflows of Resources					
Unavailable Revenue-Reprocessing Fee	181,464	-	181,464	(181,464)	-
Unavailable Revenue- Liquidated Damages	1,405,078	-	1,405,078	(1,405,078)	-
TOTAL DEFERRED INFLOWS OF RESOURCES	1,586,542	-	1,586,542	(1,586,542)	-
FUND BALANCES/NET POSITION					
Fund Balances					
Restricted for Operating & Maintenance Reserve	11,855,555	-	11,855,555	(11,855,555)	-
Restricted for Repair & Replacement	21,684,303	-	21,684,303	(21,684,303)	-
Restricted for Transportation	33,855,593	-	33,855,593	(33,855,593)	-
Restricted for Revenue Stabilization	17,804,958	-	17,804,958	(17,804,958)	-
Restricted for Deferred Sales Tax	4,500,000	-	4,500,000	(4,500,000)	-
Restricted for Third Tier Debt Service	-	7,482,061	7,482,061	(7,482,061)	-
Restricted for Fourth Tier Debt Service	-	1,985,209	1,985,209	(1,985,209)	-
Unassigned Fund Balance	-	(176,559)	(176,559)	176,559	-
TOTAL FUND BALANCES	89,700,409	9,290,711	98,991,120	(98,991,120)	-
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
	\$ 94,701,471	\$ 9,472,842	\$ 104,174,313		
Net Position:					
Net Investment in Capital Assets				664,919,343	664,919,343
Restricted for Operating & Maintenance Reserve				11,855,555	11,855,555
Restricted for Repair & Replacement Reserve				21,684,303	21,684,303
Restricted for Revenue Stabilization				17,804,958	17,804,958
Restricted for Deferred Sales Tax				4,500,000	4,500,000
Restricted for Transportation				24,738,315	24,738,315
Restricted for Third Tier Debt Service				7,482,061	7,482,061
Restricted for Fourth Tier Debt Service				1,985,209	1,985,209
TOTAL NET POSITION				\$ 754,969,744	\$ 754,969,744

See accompanying Notes to Financial Statements.

Washington State System of Eligible Toll Facilities
Statement of Revenues, Expenses, and
Changes in Fund Balance / Statement of Activities
Year Ended June 30, 2020

	Toll Facility			Adjustments (Note 4)	Statement of Activities
	SR 520 Corridor Account	Bond Retirement Account	Total		
REVENUE					
Toll Revenue	\$ 66,570,380	\$ -	\$ 66,570,380	\$ -	\$ 66,570,380
Debt Service Reimbursement -					
- Federal Highway Administration	99,804,250	-	99,804,250	-	99,804,250
Transponder Sales	732,561	-	732,561	-	732,561
Toll Vendor Contractual Damages	502,335	-	502,335	1,405,078	1,907,413
Toll Bill Reprocessing Fee Revenue	1,062,502	-	1,062,502	(183,812)	878,690
Investment Income	-	386,354	386,354	-	386,354
Interest Income	2,104,667	-	2,104,667	-	2,104,667
Miscellaneous Revenue	3,857,645	-	3,857,645	(3,795,854)	61,791
TOTAL REVENUES	174,634,340	386,354	175,020,694	(2,574,588)	172,446,106
EXPENDITURES					
Current:					
Personal Service Contracts	1,714,560	-	1,714,560	-	1,714,560
Goods and Services	17,624,575	-	17,624,575	13,155	17,637,730
Salaries and Benefits	1,882,731	-	1,882,731	-	1,882,731
Capital Outlays	2,361,109	-	2,361,109	(2,361,109)	-
Debt Service - Principal	-	94,008,231	94,008,231	(94,008,231)	-
Debt Service - Interest	-	61,724,956	61,724,956	(14,544,498)	47,180,458
Debt Service - Other Debt Costs	-	182,131	182,131	-	182,131
TOTAL EXPENDITURES	23,582,975	155,915,318	179,498,293	(110,900,683)	68,597,610
EXCESS (DEFICIENCY) REVENUES OVER EXPENDITURES	151,051,365	(155,528,964)	(4,477,599)	108,326,095	103,848,496
Other Financing Sources/Uses:					
Transfer In from Notice of Civil Penalties	2,062,078	-	2,062,078	(628,078)	1,434,000
Transfer for Debt Service	(155,763,341)	155,763,341	-	-	-
EXCESS (DEFICIENCY) REVENUES AND TRANSFER IN OVER EXPENDITURES AND TRANSFER OUT	(153,701,263)	155,763,341	2,062,078	(628,078)	1,434,000
Change in Fund Balances/Net Position	(2,649,898)	234,377	(2,415,521)	107,698,017	105,282,496
Fund Balances/Net Position:					
Beginning of The Year	92,350,307	9,056,334	101,406,641	548,280,607	649,687,248
END OF YEAR	\$ 89,700,409	\$ 9,290,711	\$ 98,991,120	\$ 655,978,624	\$ 754,969,744

See accompanying Notes to Financial Statement.

Washington State System of Eligible Toll Facilities

Notes to Financial Statements

June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The System means the SR 520 Corridor, which is defined in the master bond resolution as that portion of SR 520 from Interstate 5 to SR 202. WSDOT is a department established under and governed by the laws of the state of Washington. WSDOT has the primary responsibility for the System and the Office of State Treasurer (OST) carries out the administration of debt service activities. For financial reporting purposes, the System is a part of the primary government of the state of Washington and is included in the state's Comprehensive Annual Financial Report (CAFR). These financial statements are intended to present financial information of only the portion of government-type activities that are attributable to the transactions of the System. They do not purport to, and do not, present fairly the financial information of WSDOT or the state of Washington. The System is not a legally separate entity and no component units were identified.

The System is made up of toll facilities that the Washington State Legislature has specifically identified and designated as eligible toll facilities and for which bonds are issued under State Finance Committee Master Resolution Number 1117 or Master Resolution Number 1125.

At this time, the System includes that portion of the SR 520 Corridor Program, which has been financed by bonds issued under Master Resolution Number 1117 or Master Resolution Number 1125, TIFIA as represented in the SR 520 Corridor Account and the Toll Facility Bond Retirement Account. The financial statements of the System are intended to present information of only that portion of the government-type activities of the state of Washington that are attributable to the transactions of the System.

It is important to note that the System represents only a portion of those accounts used to fund the SR 520 Corridor Program, which is defined in the Toll Facilities Act (RCW 47.56.870) and restated in Master Bond Resolution Number 1117 and Number 1125 as the portion of SR 520 between the junctions of Interstate 5 and SR 202. The entire SR 520 Program is financed through various accounts, including but not limited to the SR 520 Corridor Account, the Transportation 2003 Account (Nickel Account), Transportation Partnership Account, and the Motor Vehicle Account.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statement information (provided on the financial statements in the Statement of Activities column and the Statement of Net Position column) is reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The activities of the System, as a whole, are reported on the government-wide financial statements.

Washington State System of Eligible Toll Facilities

Notes to Financial Statements

June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The governmental fund financial statement information provided in the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balance is reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. The System's toll revenues are determined to be available if received within 12 months. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due. See page 27 for further discussion on the accounting for compensated absences.

Fund Structure

The System's accounts are maintained in accordance with the principles of fund accounting to ensure compliance with limitations and restrictions placed on the use of resources available. Under fund accounting, individual funds are established for the purpose of carrying on activities or attaining objectives in accordance with specific regulations, restrictions or limitations. Each individual fund is a self-balancing set of accounts recording cash and other financial resources, together with liabilities and residual equities or balances, and changes therein. The System includes the following governmental funds, which are considered major funds:

a. *SR 520 Corridor Account*

This account was established August 2009, pursuant to RCW 47.56.875, for the purpose to assist financing the replacement and operations of the SR 520 Floating Bridge and necessary landings. This account is administered by WSDOT and is classified as a Special Revenue Fund. Pursuant to RCW 47.56.820, toll revenue is restricted to use.

b. *Toll Facility Bond Retirement Account*

This account was established May 2009, pursuant to RCW 47.10.882, to facilitate the payment of the principal and interest and premium on bonds issued for construction of the eligible toll facilities, including the SR 520 Floating Bridge and Eastside plus the West Approach Project. This account is administered by OST and is classified as a Debt Service Fund.

Cash and Cash Equivalents

All monies of the System are deposited in the state treasury and are considered cash and cash equivalents. According to state of Washington law, the OST is responsible for maintaining the cash balances and investing excess cash of the accounts. Consequently, WSDOT does not have control over the investment of the excess cash. The financial statements consider all funds deposited with the OST to be cash or cash equivalents, regardless of actual maturities of the underlying investments.

Washington State System of Eligible Toll Facilities

Notes to Financial Statements

June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts Receivable of the System consist primarily of tolling and fee receivables from the SR 520 toll facility, net of related allowance for doubtful accounts. As described in the Revenue Recognition, Unearned Revenue and Deferred Inflows of Resources section below, customers have a pay-by-mail option when crossing the toll facility. When the toll bills are mailed to the customer, they are recorded as an accounts receivable. For toll bill balances left unpaid, the customer service center sends a second toll bill with a \$5 toll bill reprocessing fee. For toll bills unpaid after 80 days, the amount due is no longer considered a toll bill, and becomes a Notice of Civil Penalty (NOCP). When this occurs, the toll bill receivable and toll revenue are transferred out of the SR 520 Corridor Account to a separate account established by RCW 47.56.876, specifically for adjudication and collection. Pursuant to this RCW with authority in an appropriation bill, the Legislature may authorize a transfer of excess fund balance from the SR 520 Civil Penalties Account to the SR 520 Corridor Account for capital expenditures on the SR 520 Corridor. In order to transfer the funds the OST must be provided administrative transfer authority. Additionally in the 2017-2019 Biennium, the Legislature provided authority in Chapter 313, Laws of 2018 (ESSB 6106).

Both the Toll Bill Receivable and the \$5 Toll Bill Reprocessing Fee Receivable are reported net of allowances for uncollectible amounts.

The allowance for doubtful accounts for Toll Bill Receivables is currently approximately 37% of the accounts receivable balance. The allowance for doubtful accounts for the \$5 reprocessing fee was 56% of the accounts receivable balance based on collectability data to date.

Allowance percentages are based upon WSDOT's actual collection rate.

Capital Assets

Capital Assets of the System consist of land, intangible assets, infrastructure, and construction-in-progress associated with the construction of the SR 520 Program. For purposes of the System's audited financial statements, WSDOT fully capitalizes infrastructure and reports the full cost of the asset. This reporting approach differs from how these infrastructure assets are reported in the state of Washington's CAFR. Within the CAFR, infrastructure assets are reported using the modified approach, which only capitalizes infrastructure assets if the asset increases capacity or efficiency and does not depreciate those assets. A requirement of the modified approach is to perform condition assessments of eligible assets and summarize the results using a measurement scale; this is reported in the annual CAFR. Refer to the state of Washington's CAFR for the year ended June 30, 2020 for disclosures required by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local governments*. The capitalization threshold for intangible assets, including land use rights not acquired with the purchase of land, is \$1 million, for both the state of Washington and WSDOT. Individual intangible assets under this threshold are expensed. Amortization of intangibles is calculated using the straight-line method over the estimated useful life of 10 years.

Pension and Other Post-Employment Benefits

Within the state of Washington, the pension and other post-employment benefits liability are determined at the state level and not allocated to the individual agencies. Therefore, no liability is recorded by the System.

Washington State System of Eligible Toll Facilities

Notes to Financial Statements

June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences

Within the state of Washington, the compensated absences liability is determined at the agency level. A proportionate share of the liability has been recorded on the System's books based upon the System's toll operations employee costs in relation to total WSDOT employee costs.

WSDOT employees, including those positions that are funded from the System, accrue vested annual leave at a variable rate based on years of service. In general, accrued annual leave cannot exceed 240 hours at the employee's anniversary date. Annual leave that is not used for paid time off results in full compensation at separation or retirement. It is the accounting policy of the state of Washington to liquidate unpaid annual leave with future resources rather than currently available expendable resources. Accordingly, governmental fund type accounts, as used by the System, recognize annual leave when it is paid.

With no limit on accumulation, sick leave is earned at 12 days per year. Sick leave is not vested. Sick leave that is not used for paid time off is only payable upon death or retirement of an employee, at which time the SR 520 Corridor Account would be liable for 25 percent of the employee's accumulated sick leave. Each January, employees who have accumulated sick leave in excess of 480 hours have the option to redeem sick leave earned but not taken during the previous year at the rate of one day's pay in exchange for four days of sick leave. It is the accounting policy of the state of Washington to liquidate unpaid sick leave from future resources rather than currently available expendable resources. Accordingly, governmental fund type accounts, as used by the System, recognize sick leave when it is paid.

The System's portion of the total accumulated annual and sick leave balance is shown as a reconciling item between the balance sheet and the statement of net position.

Restricted and Unrestricted Net Position

Restricted Net Position of the System represents bond proceeds and reserves set aside pursuant to requirements within the Bond Covenants. The Bond Covenants require funds to be set aside in the following accounts: Restricted for Operating and Maintenance Reserve, Restricted for Repair and Replacement Reserve, Restricted for Revenue Stabilization, Restricted for Deferred Sales Tax, Restricted for Third Tier Debt Service, and Restricted for Fourth Tier Debt Service. The remaining fund balance in the System's account is a deficit amount entitled "Unassigned" pursuant to the requirements of GASB Statement No. 54. This GASB statement requires that the fund balance be restricted if the fund resources are subject to externally enforceable legal restrictions, such as bond covenants, or when the revenue of the fund is to be used for a particular purpose pursuant to enabling legislation.

Toll Revenue

Toll revenue on the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities is comprised of revenue associated with tolls on the System, and includes toll revenue from electronic tolls, pay-by-plate toll transactions and pay-by-mail toll bills. Interest and revenue associated with reprocessing fees are displayed separately on the financial statement, with the remaining fee revenues included in miscellaneous revenue.

Washington State System of Eligible Toll Facilities

Notes to Financial Statements

June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition, Unearned Revenue and Deferred Inflows of Resources

The System uses an automated electronic toll collection system (*Good to Go!*) which uses transponders to identify vehicles passing under a toll gantry. Customers pre-fund their *Good to Go!* accounts and upon crossing the toll facility and verification of the crossing data, the system recognizes toll revenue. Users who cross the toll facility without a *Good to Go!* account receive a toll bill in the mail (pay-by-mail). The system uses cameras to record license plate images and a toll bill is mailed to the registered owner of the vehicle. When this pay-by-mail option is used, revenue is recognized as soon as the toll bill is generated by the system and sent to the customer. From the initial point of crossing the toll facility to the moment toll revenue is recorded, the toll transactions that are in-process are recorded as unbilled receivable offset to unearned revenue. At year-end, the balance in the unbilled receivable account and the associated unearned revenue are removed from the accounting records.

Additionally, unearned revenue exists to properly adjust toll revenue to reflect the long-term portion of toll bill receivables. This long-term portion of the receivables is offset by unearned revenue in accordance with governmental fund revenue recognition criteria as described in the first section above.

Deferred Inflows of Resources exist to reflect the long-term portion of the liquidated damages receivable due from the toll vendor and the portion of toll bill reprocessing fee that are estimated to take over 12 months to collect. These items are offset by long-term receivables and are considered “deferred” for governmental fund reporting purposes, but are considered earned revenue in the government wide financial statements.

Within the SR 520 Corridor Account there is no unearned revenue related to customer deposits. Customer deposits for all WSDOT toll facilities are held in a separate account outside of the System.

Common Toll Revenue and Toll Expenditure Allocation Methodology

In FY20 two facilities, Interstate 405 Express Toll Lanes and SR 167 High Occupancy Toll (HOT) Lanes, were combined and one new facility (SR99 Tunnel) was opened. There are now four WSDOT Toll facilities – SR16 Tacoma Narrows Bridge, combined Interstate 405/SR 167 Corridor, SR 520 Floating Bridge and SR99 Tunnel. Various toll expenditures and revenues related to tolling don’t benefit a single facility, but provide benefit or are attributable to multiple facilities. These are referred to as “common” revenues and expenditures. These common revenues and expenditures are allocated to the applicable toll facilities using an approved allocation methodology that is consistent, reliable, and equitable.

Washington State System of Eligible Toll Facilities
Notes to Financial Statements
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Transfers Between System Accounts

For fiscal year 2020, operating transfers out of the SR 520 Corridor Account in the amount of \$155,763,341 corresponding to Toll Facility Bond Retirement Account operating transfers in, are used for scheduled debt service payments made from the Toll Facility Bond Retirement Account for bonds issued to construct the SR 520 Corridor.

Pursuant to RCW 47.56.876, the Legislature may transfer excess fund balance from the SR 520 Civil Penalties Account to the SR 520 Bridge Account for capital expenditures on the SR 520 Corridor. In order to transfer the funds, OST must be provided administrative transfer authority. In the 2019-21 biennium, the Legislature provided authority in Chapter 219, Laws of 2020 (ESSB 2322) to transfer \$1,434,000, which represented toll revenue pledged to the bond holder. The amount transferred in the SR 520 Corridor account from the SR 520 Civil Penalties account totaled \$2,062,078 for fiscal year 2020.

Use of Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP), requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at fiscal year-end and revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - EXPLANATION OF DIFFERENCES BETWEEN GOVERNMENTAL FUNDS BALANCE SHEET AND THE STATEMENT OF NET POSITION

“Total fund balances” of the SR 520 Corridor Tolling Facility governmental funds, \$98,991,120, differs from “net position” of governmental activities, \$754,969,744 on the Governmental Funds Balance Sheet/Statement of Net Position. This difference primarily results from the long-term economic focus of the statement of net position versus the current financial resources focus of the governmental fund balance sheet. The effect of each of the differences is described below:

- a. When capital assets used in governmental activities are purchased or constructed, the cost of those assets is reported as expenditures in governmental funds. However, the Statement of Net Position includes those capital assets among the assets of the System.

CAPITAL ASSETS	
Capital Assets	\$ 2,170,720,398
Accumulated Amortization and Depreciation	(2,679,839)
Capital Assets Net, as of June 30, 2020	\$ 2,168,040,559

Washington State System of Eligible Toll Facilities
Notes to Financial Statements
June 30, 2020

NOTE 2 - EXPLANATION OF DIFFERENCES BETWEEN GOVERNMENTAL FUNDS BALANCE SHEET AND THE STATEMENT OF NET POSITION (CONTINUED)

- b. Short-term liabilities applicable to the System are due and payable in the current period and accordingly not reported as fund liabilities. All liabilities – both current and long-term are reported in the Statement of Net Position.

SHORT TERM LIABILITIES	
Interest Payable	\$ (10,499,962)
Current Portion of Long Term Debt	(98,660,422)
Total Short Term Liabilities, as of June 30, 2020	\$ (109,160,384)

- c. Long-term liabilities applicable to the System are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities – both current and long-term are reported in the Statement of Net Position.

LONG TERM LIABILITIES	
Compensated Absences Payable	\$ (27,298)
Deferred Sales Tax Payable	(159,439,317)
Bond Premium Payable	(58,302,131)
Bond Principal Payable	(899,615,000)
TIFIA Loan Principal Payable	(287,104,347)
Total Long Term Liabilities, as of June 30, 2020	\$ (1,404,488,093)

- d. Deferred inflows of resources is associated with the long-term receivable portion of the reprocessing fee and liquidated damages receivables estimated to be collected after 12 months. While this revenue is considered “unavailable” for governmental fund accounting, it is considered earned revenue in the entity-wide financial statements due to the differences in revenue recognition criteria that are described in Note 1 above. Therefore, these amounts are removed from the Balance Sheet and appear as revenue in the Statement of Activities.

DEFERRED INFLOWS/OUTFLOWS OF RESOURCES	
Revenue – Reprocessing Fee	\$ 181,464
Revenue – Liquidated Damages	1,405,078
Total Deferred Revenue, as of June 30, 2020	\$ 1,586,542

Washington State System of Eligible Toll Facilities
Notes to Financial Statements
June 30, 2020

NOTE 3 - NET INVESTMENT IN CAPITAL ASSETS

Net Investment in capital assets is comprised of the following amounts:

CAPITAL ASSETS	
Net Capital Assets Balance	\$ 2,168,040,559
Less:	
Current Portion of Long Term Debt	(98,660,422)
Deferred Sales Tax Payable	(159,439,317)
Bonds Premium	(58,302,131)
Bond Principal Payable	(899,615,000)
TIFIA Loan Payable	(287,104,347)
	<u>(1,503,121,217)</u>
Net Investment in Capital Assets, as of June 30, 2020	<u>\$ 664,919,343</u>

NOTE 4 - EXPLANATION OF DIFFERENCES BETWEEN GOVERNMENTAL FUNDS OPERATING STATEMENTS AND THE STATEMENT OF ACTIVITIES

In the Statement of Fund Revenues, Expenditures and Changes in Fund Balances/Statement of Activities, the difference between Change in Fund Balances for government funds of \$(2,415,521) and Change in Net Position for governmental activities of \$105,282,496 is primarily from the long-term economic focus of the statement of activities versus the current financial resources focus of the governmental funds. The effect of each of the differences is described below:

- a. Deferred inflows of resources are associated with the long-term receivable portion of the reprocessing fee receivable and the estimated liquidated damages specified in a contract with ETAN to provide the next generation Tolling Back Office System (BOS). Both of these deferred inflows are estimated to be collected after 12 months. While this revenue is considered "unavailable" for governmental fund accounting, it is considered earned revenue in the entity-wide financial statements due to the differences in revenue recognition criteria that are described in Note 1 above. Therefore, these amounts are removed from the Balance Sheet and appear as revenue in the Statement of Activities.

Total Toll Reprocessing Fee Revenue	\$ (183,812)
Total Vendor Liquidated Damages Revenue	<u>1,405,078</u>
Total Deferred Inflows of Resources	\$ 1,221,266

- b. Revenue received from the sale of land is recognized in governmental fund accounting and is considered earned. However, due to differences in revenue recognition criteria, revenue received and receivable is recognized in the statement of activities.

Miscellaneous Revenue	\$ (3,795,854)
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Washington State System of Eligible Toll Facilities
Notes to Financial Statements
June 30, 2020

NOTE 4 - EXPLANATION OF DIFFERENCES BETWEEN GOVERNMENTAL FUNDS OPERATING STATEMENTS AND THE STATEMENT OF ACTIVITIES (CONTINUED)

- c. Some expenses reported in the Statement of Activities column do not require the use of current financial resources, and therefore are not reported as expenditures in governmental funds:

STATEMENT OF ACTIVITIES RECONCILIATION	
Compensated Absences Expense	\$ (12,952)
Depreciation Expense	(203)
Net Change in Interest Payable	1,335,188
Intangible Software Expense	2,361,109
Total Net Change Operating Expense Accruals, year ended June 30, 2020	\$ 3,683,142

- d. Bond issuance proceeds, original bond issuance premiums, and TIFIA loan proceeds are considered other financing sources within governmental funds; but are considered long-term liabilities within governmental wide financial statements. Therefore, they are adjusted off the statement of activities and reflected on the statement of net position.

Bond Premium Amortization for year ended June 30, 2020 \$13,209,310

- e. Payment of debt principal is an expenditure in the governmental funds, but is a liability reduction in the Statement of Net Position.

Payment of Bond Principal \$94,008,231

NOTE 5 - DETAILED NOTES ON ACCOUNT BALANCES

Cash and Investments Held by State Treasury

All monies of the System are deposited in the state treasury and are considered cash and cash equivalents. OST is responsible for maintaining and investing the pooled cash balances in accordance with state of Washington laws. OST is required to maintain a mix of investment portfolios in order to allow funds to be withdrawn at any time to meet normal operating needs without prior notice or penalty. Refer to the state of Washington's CAFR for the year ended June 30, 2020 for disclosures required by GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No. 3). The state of Washington CAFR may be obtained from the Internet at <http://www.ofm.wa.gov/cafr/default.asp>.

Washington State System of Eligible Toll Facilities
Notes to Financial Statements
June 30, 2020

NOTE 5 - DETAILED NOTES ON ACCOUNT BALANCES (CONTINUED)

CASH BALANCE	
SR 520 Corridor Account Cash and Cash Equivalents	\$ 91,185,774
Toll Facility Bond Retirement Account Cash and Cash Equivalents	9,467,270
Total System Account Cash and Cash Equivalents, as of June 30, 2020	<u>\$ 100,653,044</u>

Accounts Receivable

The following is a summary of the System's accounts receivable balances and related allowances as of June 30, 2020:

ACCOUNTS RECEIVABLE	
Toll Bill Accounts Receivable	\$ 1,051,483
Toll Bill Allowance for Doubtful Accounts	(412,775)
Net Toll Bill Accounts Receivable	<u>638,708</u>
Toll Bill Reprocessing Fee Receivable	1,047,134
Toll Bill Reprocessing Fee Allowance for Doubtful Accounts	(584,893)
Net Toll Bill Reprocessing Fee Receivable	<u>462,241</u>
Toll Receivable	55,264
NSF Fee Receivable	17,823
Transponder Fee Receivable	765
Other Receivables Subtotal	<u>73,852</u>
Total Accounts Receivable (Net), as of June 30, 2020	<u>\$ 1,174,801</u>

Washington State System of Eligible Toll Facilities
Notes to Financial Statements
June 30, 2020

NOTE 6 - CAPITAL ASSETS

Capital Assets of the System increased \$2,360,906 in fiscal year 2020, including \$203 in depreciation and increased investment in an intangible IT asset for \$2,361,109. Capital Assets consist of land and SR 520 Floating Bridge and Eastside plus West Approach Bridge infrastructure, as well as equipment and Information Technology intangible assets capitalized pursuant to GASB No. 51.

CAPITAL ASSETS				
	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Depreciated:				
Land	\$ 45,275,093	\$ -	-	\$ 45,275,093
Infrastructure	2,113,899,969	-	-	2,113,899,969
Total	2,159,175,062	-	-	2,159,175,062
Capital Assets, Depreciated:				
Equipment	2,167	-	-	2,167
Less Depreciation	(575)	(203)	-	(778)
Total	1,592	(203)	-	1,389
Capital Assets, Amortized:				
Intangible Asset (IT)	9,182,060	2,361,109	-	11,543,169
Less Amortization	(2,679,061)	-	-	(2,679,061)
Total	\$ 6,502,999	\$ 2,361,109	-	\$ 8,864,108
Total Capital Assets (Net)	\$ 2,165,679,653	\$ 2,360,906	-	\$ 2,168,040,559

Washington State System of Eligible Toll Facilities
Notes to Financial Statements
June 30, 2020

NOTE 7 - LONG-TERM LIABILITIES

The System's long-term liabilities consist of the items described below. Total long-term liabilities decreased by \$107,204,590 in fiscal year 2020. There are \$98,660,422 of long-term liabilities due within one year. Below is a table of the System's total long-term liabilities by category as of June 30, 2020.

LONG TERM LIABILITIES					
	Beginning Balance	Increases	Decreases	Ending Balance	Due in One Year
Compensated Absences	\$ 14,347	\$ 12,951	\$ -	\$ 27,298	\$ -
Deferred Sales Tax Payable	159,439,317	-	-	159,439,317	-
Premiums on Bonds Payable	71,511,441	-	(13,209,310)	58,302,131	-
Bonds Payable	1,085,645,000	-	(90,750,000)	994,895,000	95,280,000
TIFIA Loan Payable	293,743,000	-	(3,258,231)	290,484,769	3,380,422
Total	\$ 1,610,353,105	\$ 12,951	\$(107,217,541)	\$1,503,148,515	\$98,660,422

Bonds Payable

a. Series 2012 Bonds

In October 2011, the state of Washington issued \$518.7 million in Motor Vehicle Fuel Tax General Obligation Bonds (SR 520 Program – Toll Revenue), Series 2012C, for the purpose of providing funds to pay and reimburse state expenditures for a portion of the SR 520 Floating Bridge and Eastside Project. The Series 2012C Bonds are general obligations of the state and the full faith, credit and taxing power of the state are pledged irrevocably to the payment of general obligation bonds. The Series 2012C Bonds were the first series of bonds issued under the Toll Revenue Master Bond Resolution No. 1117 and are first payable from Toll Revenue and Motor Vehicle Fuel Taxes. Bonds issued under the Toll Revenue Master Bond Resolution have a right, pledge and preference to payment from Toll Revenue in the following order of priority: (1) First Tier Bonds, (2) Second Tier Bonds, (3) Third Tier Bonds, and (4) Fourth Tier Bonds. The Series 2012C Bonds are issued as Third Tier Bonds with respect to Toll Revenue. Interest on the Series 2012C Bonds is payable semiannually on each June 1 and December 1, beginning June 1, 2012. The principal of the Series 2012C Bonds is payable each June 1, starting in June 2017, and continuing to June 2041.

Washington State System of Eligible Toll Facilities

Notes to Financial Statements

June 30, 2020

NOTE 7 - LONG-TERM LIABILITIES (CONTINUED)

Bonds Payable (Continued)

a. Series 2012 Bonds (Continued)

In June 2012, the state of Washington issued \$500.4 million in Federal Highway Grant Anticipation Revenue Bonds, Series 2012F (GARVEE) (SR 520 Corridor Program) to finance a portion of the costs of constructing the SR 520 Floating Bridge, the Eastside Project and to pay issuance costs for the Series 2012F Bonds. The Series 2012F Bonds were the first series of GARVEE Bonds issued under the GARVEE Master Bond Resolution No. 1122. The Series 2012F Bonds are payable only from Federal-Aid Highway Funds received by the state and are not general obligations of the state to which the state's full faith and credit or taxing power is pledged and no state excise taxes on motor vehicle and special fuels are pledged. Interest on the Series 2012F Bonds is payable semiannually on each March 1 and September 1, beginning September 1, 2012. The principal of the Series 2012F Bonds is payable on each September 1, starting in September 2015, and continuing to September 2024.

b. TIFIA Bonds

In October 2012, the state of Washington issued a Transportation Infrastructure and Innovation Bond, which represented a draw-down loan from the United States Department of Transportation's Transportation Infrastructure Finance and Innovation Act (TIFIA) program in the amount of \$300 million to be reimbursed from toll revenue. All \$300 million has been drawn on the TIFIA Bond. The Bonds were issued as Fourth Tier Bonds under the Toll Revenue Master Bond Resolution No. 1117 and are payable solely from toll receipts. Principal and interest payments begin December 1, 2017, payable every six months through June 1, 2051.

c. Series 2014 Bonds

In September 2013, the state of Washington issued \$285.9 million in Federal Highway Grant Anticipation Revenue (GARVEE) Bonds, referred to as Series 2014C Bonds. These bonds were issued to finance a portion of the construction costs of the SR 520 Floating Bridge and Eastside plus West Approach Bridge Project, and to pay bond issuance costs. The Series 2014C Bonds were the second series of GARVEE Bonds issued under the GARVEE Master Bond Resolution No. 1125. The Series 2014C Bonds are payable only from Federal-Aid Highway Funds received by the state and are not general obligations of the state to which the state's full faith and credit or taxing power is pledged and no state excise taxes on motor vehicle and special fuels are pledged. Interest on the Series 2014C Bonds is payable semiannually on each March 1 and September 1, beginning March 1, 2014. The principal of the Series 2014C Bonds is payable on each September 1, starting in September 2015, and continuing to September 2024.

Washington State System of Eligible Toll Facilities
Notes to Financial Statements
June 30, 2020

NOTE 7 - LONG-TERM LIABILITIES (CONTINUED)

Bonds Payable (Continued)

d. Series 2017 Bonds

In September 2016, the state of Washington issued \$90.3 million in Motor Vehicle Fuel Tax General Obligation Bonds (SR 520 Corridor Program – Toll Revenue), Series 2017C, for the purpose of providing funds for a portion of the SR 520 Floating Bridge and Eastside plus West Approach Bridge North. The Series 2017C Bonds were the second series of Third Tier Bonds issued under the Toll Revenue Master Bond Resolution No. 1117 and are first payable from Toll Revenue and Motor Vehicle Fuel Taxes. Interest on the Series 2017C Bonds is payable semiannually on each June 1 and December 1, beginning December 1, 2016. The principal of the Series 2017C Bonds is payable each June 1, starting in June 2017, and continuing to June 2041.

Bonds Outstanding

The following is a summary of the bonds payable as of June 30, 2020 (dollars in thousands):

Bonds Outstanding	Principal Amount	Maturity dates	Annual Principal Amount Ranges
Series 2012C	\$472,080	6/1/2041	\$13,165 to \$35,100
Series 2012F	\$280,395	9/1/2024	\$50,770 to \$61,665
TIFIA	\$290,485	6/1/2051	\$3,380 to \$22,063
Series 2014C	\$160,270	9/1/2024	\$29,010 to \$35,250
Series 2017C	\$82,150	6/1/2041	\$2,335 to \$6,080

Washington State System of Eligible Toll Facilities
Notes to Financial Statements
June 30, 2020

NOTE 7 - LONG-TERM LIABILITIES (CONTINUED)

Bonds Outstanding (Continued)

As of June 30, 2020, debt service requirements to maturity for the Series 2012C, Series 2012F, TIFIA (based on October 2012 debt schedule), Series 2014C and Series 2017C bonds were as follows (dollars in thousands):

Series 2012C

Year ending June 30,	Principal		Interest		Total
2021	\$	13,165	\$	23,690	\$ 36,855
2022		13,825		23,032	36,857
2023		14,515		22,341	36,856
2024		15,240		21,615	36,855
2025		16,005		20,853	36,858
2026-2030		93,175		91,110	184,285
2031-2035		119,075		65,212	184,287
2036-2040		151,980		32,313	184,293
2041		35,100		1,755	36,855
	\$	472,080	\$	301,921	\$ 774,001

Series 2012F

Year ending June 30,	Principal		Interest		Total
2021	\$	50,770	\$	12,669	\$ 63,439
2022		53,290		10,084	63,374
2023		55,940		7,364	63,304
2024		58,730		4,502	63,232
2025		61,665		1,517	63,182
	\$	280,395	\$	36,136	\$ 316,531

Washington State System of Eligible Toll Facilities
Notes to Financial Statements
June 30, 2020

NOTE 7 - LONG-TERM LIABILITIES (CONTINUED)

Bonds Outstanding (Continued)

Series 2014C

Year ending June 30,	Principal	Interest	Total
2021	\$ 29,010	\$ 7,268	\$ 36,278
2022	30,460	5,786	36,246
2023	31,975	4,229	36,204
2024	33,575	2,591	36,166
2025	35,250	876	36,126
	\$ 160,270	\$ 20,750	\$ 181,020

Series 2017C

Year Ending June 30,	Principal	Interest	Total
2021	\$ 2,335	\$ 4,050	\$ 6,385
2022	2,455	3,933	6,388
2023	2,575	3,810	6,385
2024	2,705	3,681	6,386
2025	2,840	3,546	6,386
2026-2030	16,190	15,737	31,927
2031-2035	20,635	11,300	31,935
2036-2040	26,335	5,599	31,934
2041	6,080	304	6,384
	\$ 82,150	\$ 51,960	\$ 134,110

Washington State System of Eligible Toll Facilities
Notes to Financial Statements
June 30, 2020

NOTE 7 - LONG-TERM LIABILITIES (CONTINUED)

Bonds Outstanding (Continued)

TIFIA Loan

Year ending June 30,	Principal	Interest	Total
2021	\$ 3,380	\$ 9,305	\$ 12,685
2022	3,470	9,216	12,686
2023	3,575	9,111	12,686
2024	3,671	9,015	12,686
2025	3,804	8,881	12,685
2026-2030	20,751	42,679	63,430
2031-2035	24,070	39,359	63,429
2036-2040	27,912	35,517	63,429
2041-2045	76,785	31,064	107,849
2046-2050	101,004	17,950	118,954
2051	22,063	1,728	23,791
	\$ 290,485	\$ 213,825	\$ 504,310

Combined

Year ending June 30,	Principal	Interest	Total
2021	\$ 98,660	\$ 56,982	\$ 155,642
2022	103,500	52,051	155,551
2023	108,580	46,855	155,435
2024	113,921	41,404	155,325
2025	119,564	35,673	155,237
2026-2030	130,116	149,526	279,642
2031-2035	163,780	115,871	279,651
2036-2040	206,227	73,429	279,656
2041-2045	117,965	33,123	151,088
2046-2050	101,004	17,950	118,954
2051	22,063	1,728	23,791
	\$ 1,285,380	\$ 624,592	\$ 1,909,972

Washington State System of Eligible Toll Facilities

Notes to Financial Statements

June 30, 2020

NOTE 7 - LONG-TERM LIABILITIES (CONTINUED)

Sales Tax Payable

The 2008 Legislature passed Chapter 270, Section 7 of the Laws of 2008 (RCW 47.01.412) allowing a deferral of state and local sales and use taxes on the site preparation, project construction, and acquisition and rental of equipment for use in the SR 520 Bridge Replacement and HOV Program. Effective December 10, 2009, the Washington State Department of Revenue provided the associated certificate (3096-09-001) for deferral of sales and use tax on the SR 520 Bridge Replacement and HOV Program. The amount of sales tax payable as of June 30, 2020 was \$159.4 million. Per RCW, repayment is to begin five years after the replacement bridge is operationally complete and opened to traffic, and is to be repaid in equal payments over a ten-year period, starting in December 2022.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Commitments

- a. WSDOT has contracted with ETCC to manage all aspects of the state-wide Tolling Customer Service Center through most of fiscal year 2021. The contract, of which a portion is allocated to the System based upon a toll facility transaction count allocation methodology, includes a tiered fee schedule for services.
- b. WSDOT has contracted with Kapsch for implementation and on-going maintenance of the SR 520 Floating Bridge toll lane hardware and software.
- c. On July 17, 2017, WSDOT entered into a contract with ETAN to provide the next generation Tolling Back Office System (BOS). The key objectives of the new BOS are to efficiently and effectively process transactions generated on toll facilities; provide a full range of customer relationship management tools; and accurately account for all toll and tolling-related revenues in compliance with state and GAAP standards. SR 520 Bridge Toll Facility will share in the benefits and a portion of the \$42.8 million cost for startup, operations and maintenance of the BOS over a 12-year period.
- d. As part of the new Tolling BOS, WSDOT has contracted with AECOM to operate the Good To Go! Customer service program and retail locations.

Contingencies

- a. The System Bond Covenants require that WSDOT keep the SR 520 Corridor System and its use and operation thereof insured at all times in such amounts as are customary for similar facilities, including business interruption insurance. WSDOT has purchased insurance from a commercial insurance carrier for this purpose. In addition, Washington State operates a risk management liability program pursuant to RCW 4.92.130. The state's policy is generally not to purchase commercial insurance for the risk of losses to which it is exposed. Instead, the state's management believes it is more economical to manage its risk internally (as a Self-Insurance Liability Program) and set aside assets for claims settlements in the Risk Management Fund, an internal service fund. WSDOT participates in Risk Management's Self-Insurance Liability Program.

Washington State System of Eligible Toll Facilities
Notes to Financial Statements
June 30, 2020

NOTE 8 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Contingencies (Continued)

- b. SR 520 Program Budget Adjustment: In January 2014, WSDOT Secretary Lynn Peterson and SR 520 Program Director Julie Meredith provided a budget update to the legislature's Joint Transportation Committee. In that briefing, WSDOT acknowledged that with the combined change orders outlined below, the Program's risk reserve would likely be exceeded. Notably, the change orders related solely to the pontoon design error totaled approximately \$200 million. In reviewing the remaining construction costs and the needed risk reserve, WSDOT requested an additional \$170 million for the SR 520 Program. These funds were provided in the 2014 legislative session through ESSB 6001. In 2017, \$55 million of risk reserve saving was reduced from the SR 520 Program budget due to retired risks. As of June 30, 2020, the remaining risk reserve is approximately \$1 million.
- c. BTF Enterprises Inc. v. WSDOT, relocation benefits appeal. The issue is whether BTF is entitled to relocation benefits for the trade fixtures of the Montlake 76 Gas Station (pumps, canopies, underground storage tanks). The amount in controversy is undetermined; however, it is estimated that \$300k is in controversy based on representations from opposing counsel.

In addition to the information above, various claims arising in the ordinary course of operations and construction of the System do occur. The ultimate effect of such litigation cannot be ascertained at this time.

NOTE 9 - SUBSEQUENT EVENTS

- a. The new electronic tolling system was originally scheduled to go live in Fiscal Year 2020. The new system is now scheduled to go live in Fiscal Year 2021. As a result, WSDOT extended its contract with ETCC to operate the current system.

Washington State System of Eligible Toll Facilities
Notes to Financial Statements
June 30, 2020

NOTE 10 - SIGNIFICANT EVENT IMPACT STATEMENTS

- a. The system must comply with coverage and sufficiency requirements in order to protect the facility's credit rating and ensure an orderly closing of Series R-2021A.
- b. In October 2020, the State plans to defease approximately \$10 million of outstanding bonds. The State will deposit funds in an irrevocable trust with an escrow agent to provide resources to purchase U.S. Government securities for the purposes of generating cash flows that, along with cash, will be used to pay all future debt service payments related to the defeased bonds. As a result, the defeased bonds will be considered to be extinguished and the related liability for the bonds will be removed from the System's liabilities.
- c. COVID-19 adversely affected the system's revenue stream. In the fourth quarter of FY20, toll revenue was down by 66% compared to the same quarter of the prior year. In the first quarter of FY21, toll revenue improved incrementally; however, it remains down by 49% versus the same quarter in the prior year. The system expects revenue to be significantly reduced until additional relief from the pandemic is achieved.

Exhibit II

Projected Net Toll Revenues and Debt Service Coverage

SR 520 Floating Bridge and Eastside plus West Approach Bridge North Project
Projected Net Toll Revenue and Debt Service Coverage (Actuals through Fiscal Year 2020)
(\$ in millions)

Fiscal Year	Net Toll Revenue	(Deposits)/ Withdrawals from to the Revenue Stabilization Subaccount	Net Toll Revenue for Coverage Purposes ⁽¹⁾	Third Tier Bonds					Fourth Tier Bonds			
				2012C Bonds Debt Service	2017C Bonds Debt Service	R-2021A Bonds Debt Service	Defeased Debt Service	Total Third Tier Debt Service	Third Tier Debt Coverage	Fourth Tier (TIFIA) Debt Service	Fourth Tier (TIFIA) Debt Coverage	
2012 ⁽²⁾	21.22	-	21.22	-	-	-	-	-	-	-	-	-
2013	47.02	-	47.02	26.02	-	-	-	26.02	1.81x	-	1.81x	
2014	51.14	-	51.14	26.02	-	-	-	26.02	1.96x	-	1.96x	
2015	54.91	-	54.91	26.02	-	-	-	26.02	2.11x	-	2.11x	
2016	58.77	(22.07)	36.70	26.02	-	-	-	26.02	1.41x	-	1.41x	
2017	63.87	(6.74)	57.13	36.86	4.96	-	-	41.82	1.37x	-	1.37x	
2018	69.46	-	69.46	36.86	6.39	-	-	43.25	1.61x	12.69	1.24x	
2019	70.49	-	70.49	36.86	6.39	-	-	43.25	1.63x	12.69	1.26x	
2020	55.44	11.00	66.44	36.86	6.39	-	-	43.24	1.54x	12.69	1.19x	
2021 ^(3,5)	23.65	11.15	34.80	31.10	6.38	4.84	(10.41)	31.92	1.09x	12.69	0.78x	
2022	48.02	6.65	54.67	-	6.39	31.80	-	38.19	1.43x	12.69	1.07x	
2023	60.81	-	60.81	-	6.39	31.80	-	38.19	1.59x	12.69	1.20x	
2024	68.54	-	68.54	-	6.39	31.80	-	38.18	1.80x	12.69	1.35x	
2025	69.51	-	69.51	-	6.39	31.80	-	38.19	1.82x	12.69	1.37x	
2026	69.89	-	69.89	-	6.39	31.80	-	38.19	1.83x	12.69	1.37x	
2027	72.54	-	72.54	-	6.38	31.80	-	38.18	1.90x	12.69	1.43x	
2028	75.00	-	75.00	-	6.39	31.80	-	38.19	1.96x	12.69	1.47x	
2029	76.71	-	76.71	-	6.38	31.80	-	38.19	2.01x	12.69	1.51x	
2030 ^(4,5)	92.44	(13.20)	79.24	-	6.39	31.80	-	38.19	2.07x	12.69	1.56x	
2031	94.36	(15.17)	79.20	-	6.39	31.80	-	38.19	2.07x	12.69	1.56x	
2032	96.17	(1.44)	94.73	-	6.39	31.80	-	38.18	2.48x	12.69	1.86x	
2033	95.46	-	95.46	-	6.38	31.80	-	38.19	2.50x	12.69	1.88x	
2034	95.99	-	95.99	-	6.39	31.80	-	38.19	2.51x	12.69	1.89x	
2035	96.22	-	96.22	-	6.39	31.80	-	38.19	2.52x	12.69	1.89x	
2036	96.97	-	96.97	-	6.39	31.80	-	38.19	2.54x	12.69	1.91x	
2037	97.27	-	97.27	-	6.39	31.80	-	38.19	2.55x	12.69	1.91x	
2038	97.56	-	97.56	-	6.39	31.80	-	38.19	2.55x	12.69	1.92x	
2039	97.79	-	97.79	-	6.38	31.81	-	38.19	2.56x	12.69	1.92x	
2040	98.09	-	98.09	-	6.39	31.80	-	38.19	2.57x	12.69	1.93x	
2041	98.09	-	98.09	-	6.38	31.80	-	38.18	2.57x	12.69	1.93x	
2042	98.45	-	98.45	-	-	-	-	-	-	23.79	4.14x	

- (1) Net Toll Revenue for coverage purposes includes deposits to and withdrawals from the Revenue Stabilization Subaccount. Reflects actuals through June 30, 2020.
- (2) Tolling began December 2011.
- (3) Revenue projections for Fiscal Years 2021 through FY 2029 are based upon the Transportation and Revenue Forecast Council's (TRFC) November 18, 2020 revenue forecast. Operating and maintenance (O&M) projections for Fiscal Years 2021 through FY 2029 are based upon the 2019 Net Toll Revenue Report prepared by WSP USA in collaboration with Washington State Department of Transportation (WSDOT), updated April 24, 2020. At this time, we do not have an updated traffic and revenue forecast that incorporates the impacts of the COVID-19 pandemic. Projected numbers are subject to change.
- (4) Projections starting with Fiscal Years 2030 and beyond are based on the 2019 Traffic and Revenue Study prepared by Stantec and the 2019 Net Toll Revenue Report prepared by WSP USA in collaboration with WSDOT, both as updated April 24, 2020. At this time, we do not have an updated traffic and revenue forecast that incorporates the impacts of the COVID-19 pandemic. Projected numbers are subject to change.
- (5) Due to the COVID-19 pandemic, toll revenues have been significantly reduced for the SR 520 facility. The Office of the State Treasurer, the Office of Financial Management, the Transportation Commission, WSDOT, and the Legislature are looking at various options to address this revenue reduction, including increasing toll rates and funding SR 520 expenditures with other sources.